



VIRGINIA SMALL BUSINESS FINANCING AUTHORITY

UMBRELLA INDUSTRIAL DEVELOPMENT BOND PROGRAM

INFORMATION SHEET

The purpose of this Information Sheet is to explain the Umbrella Industrial Development Bond (IDB) Program, which the Virginia Small Business Financing Authority (VSBFA) makes available to qualified borrowers in Virginia. Additional questions concerning specific bond projects may be directed to VSBFA at 804-371-8254.

Under state and federal laws, local municipalities and other designated Authorities may issue tax-exempt IDBs for qualified capital expenditures (land, buildings and new equipment for manufacturing facilities). This financing vehicle provides financing at interest rates substantially below those available from conventional sources. This is due to the fact that the interest earned by the buyers of the bonds is exempt from federal as well as state income taxes.

VSBFA issues tax-exempt IDBs for eligible small businesses statewide. The Umbrella IDB Program provides a means for firms to sell their IDBs in the tax-exempt bond market. Through the program, creditworthy IDB projects are brought under an umbrella of standard documentation and uniform credit enhancement, enabling an offering to be made to sell the bonds. Each project must obtain a standby letter of credit from an approved financial institution (usually the borrower's local bank) to guarantee the bonds. A master letter of credit is then provided by a double-A rated bank for all the projects participating in the Umbrella Program. There is no joint and several liability among the individual borrowers. As soon as a standby letter of credit commitment is received, the closing process may begin, thus eliminating the necessity for any one borrower to wait for another in order to close.

COSTS TO THE BORROWER

Annual costs are a combination of the interest cost on the bond and annual fees. The interest on the bonds is a variable rate which adjusts weekly based on market conditions. Annual fees are paid to the **issuer**, the remarketing agent, the bond rating agency, the trustee, and to the standby and master letter of credit banks.

One-time closing costs include VSBFA's **application fee and issuance fee**, charges for rating of the bonds, fees to the bond counsel, the master letter of credit bank and its counsel, the underwriter and the trustee. In addition, the borrower is responsible for its attorney's fees and any costs of obtaining the standby letter of credit.

VARIABLE RATE TAX-EXEMPT BONDS

The VSBFA Umbrella IDB Program uses a Weekly Variable Rate Demand Bond structure whereby interest on the bonds is reset on a weekly basis. This enables the borrower to realize cost savings when compared to fixed rate bonds, as short-term interest rates are generally lower than long-term fixed rates. The structure of the Variable Rate Demand Notes is as follows:

Borrowing Size Minimum: **None; however, see cost estimates following.** Maximum: \$10,000,000. Borrowing must be in multiples of \$10,000.

Pricing Interest is paid monthly and is adjusted on a weekly basis. The rate is set by the underwriter/remarketing agent based upon market conditions.

Term Maximum maturity is based on the economic life of the facility financed and the standby letter of credit bank's credit evaluation.

Put/Call Bonds are purchased by the trustee/remarketing agent on behalf of the borrower at par upon 7 days notice by the bondholders. Bonds that are put are remarketed at par by the remarketing agent. Any bonds not so remarketed are paid for with a draw upon the master letter of credit. Bonds are callable at par on any weekly adjustment date (when the interest rate changes).

Credit/Liquidity Support Each bond issue must be guaranteed by a Standby Letter of Credit from an acceptable bank for an initial period of at least 5 years, with renewal periods to extend to the final bond maturity. The fee for the standby letter of credit is negotiated between the bank and the borrower. Each standby letter of credit is then covered by a master letter of credit from a double-A rated bank.

Rating The bonds are rated by Standard & Poor's Corporation to provide the borrower with the most attractive interest rates available.

Timing Closings are scheduled throughout the year. The process generally takes 90 to 120 days from program commencement including VSBFA processing, credit review and documentation.

VSBA's PARTNERS IN FACILITATING AN UMBRELLA BOND TRANSACTION

Issuer VSBA

Standby Letter of Credit Bank The borrower's bank provides a Standby Letter of Credit which guarantees to the ultimate bondholders that the bonds will be repurchased in the event of default by the borrower. ALL STANDBY LETTER OF CREDIT BANKS MUST BE APPROVED FOR PARTICIPATION IN THE PROGRAM.

Master Letter of Credit Bank The role of the master letter of credit bank is basically three-fold. First and foremost, it provides a uniform credit rating for the offering. This allows the underwriter/remarketing agent to market bonds having standby letters of credit from several different local banks in a cost effective manner. Second, the master letter of credit bank, through its credit rating, provides Umbrella participants with the lowest interest rates available in the marketplace. Third, the master letter of credit bank provides liquidity to the bondholders in that, at any time, the bondholders can turn to the master letter of credit bank as a purchaser of last resort. The master bank for VSBA's Umbrella Program is **Wachovia Bank (Wachovia)**.

Trustee The trustee facilitates the day-to-day servicing of the borrower's bond transactions with the bondholders, master bank and underwriter/remarketing agent. The trustee bills the borrower for other parties' normal and recurring charges, and remits the payments to the parties involved. The trustee for the Umbrella Program is **The Bank of New York**.

Underwriter/Remarketing Agent The underwriter is the bond broker who markets the bonds initially and remarkets the variable-rate bonds on a regular basis. The underwriter and remarketing agent for the program is **Wachovia Bank (Wachovia)**.

Bond Counsel The bond counsel issues legal and tax opinions for each borrower's project and for the Umbrella bond itself. The VSBFA program uses standard documents in order to make legal fees as reasonable as possible. The Umbrella Program bond counsel is **McGuire, Woods, Battle & Boothe**.

VSBAFA representatives are available to assist borrowers with packaging their project proposals and working with local banks to obtain the standby letter of credit. VSBAFA also coordinates the bond closings and acts as a liaison among all of the parties to the Umbrella Program.

COST ESTIMATES

Because some of the costs involved in obtaining a tax-exempt bond are fixed (as opposed to a percentage of the bond amount), the larger the amount borrowed, the more cost-effective the project. Although there is no legal minimum to the size of the bond issue, the relatively large up-front costs for extremely small projects may outweigh the benefits of the low tax-exempt interest rates. VSBAFA representatives are available to assist potential borrowers with this cost/benefit analysis and evaluation

Estimated One-Time Closing Costs

VSBAFA Issuance Fee	.0025%
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Bond Counsel

Transaction Amount

Less than \$1,000,000

Between \$1,000,000 and \$2,000,000

Over \$2,000,000

Bond Counsel Fees

\$15,000 + \$1,500 expenses

\$17,500 + \$1,500 expenses

\$20,000 + \$1,500 expenses

Wachovia Counsel Fee

Transaction Amount

Less than \$1,000,000

Between \$1,000,000 and \$2,000,000

Over \$2,000,000

Wachovia Counsel Fees

\$10,000 + \$500 out-of-pocket expenses

\$12,500 + \$500 out-of-pocket expenses

\$15,000 + \$500 out-of-pocket expenses

Underwriter (Placement Fee)

\$10,000 or .60%, whichever is greater

Trustee Fee

\$500

Example

(Does not include borrower's counsel and any up-front costs charged by the standby letter of credit bank and its counsel.)

\$1 Million Project

Issuance Fee	\$2,500	
Bond Counsel	\$19,000	
FUNB Counsel	\$13,000	
Underwriter	\$10,000	
Trustee	\$500	
	<u>\$45,000.00</u>	(4.5%)*

Note*: A maximum of 2% of the total bond amount may be applied to "issuance" costs. An additional 3% may be applied to "credit enhancement" costs, i.e., the up-front fees of the standby letter of credit bank.

Estimated Annual Costs

Bond Rate	1.20% ¹
VSBA Annual Fee	.125%
Standby Letter of Credit	1.50% ²
Master Letter of Credit	.35%
Remarketing Agent	.125%
Trustee	\$2,700

Example

\$1 Million Project

Bond Rate	1.20%
VSBA Annual Fee	.125%
Standby Letter of Credit Fee	1.50% ²
Master Letter of Credit Fee	.35%
Remarketing Agent	.125%
Trustee	<u>.27%</u>
Effective Annual Rate	3.57% ³

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1. This was the average annual interest rate during 2003 on the bonds currently utilizing VSBA's Umbrella Bond Program. The interest rate on variable tax-exempt bonds has historically averaged 45% of the prime rate.
 2. This is an estimate. Standby letter of credit fees are negotiated between the borrower and the bank.
 3. This compares to the average prime rate of 4.12% for 2003.